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United States Senate

WASHINGTON, DC 20510

March 20, 1998

96-45
Report To
Congress

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The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Chairman Kennard:

We are writing regarding the Federal Communications Commission (FCC) review of its implementation of the universal service provisions of the Telecommunications Act of 1996. The overarching policy goal of the 1996 Act is to promote a market-driven, robustly competitive environment for all communications services. Given that, we wish to make it clear that nothing in the 1996 Act or its legislative history suggests that Congress intended to alter the current classification of Internet and other information services or to expand traditional telephone regulation to new and advanced services.

As the 1996 Act recognizes expressly, the development of the Internet - and the advanced services it supports and stimulates - has been an extraordinary advance for the American public. These services now are beginning to give Americans access to a wealth of informational, educational, social and cultural resources. School children now are starting to reap the benefits of access to a world of educational information. Emerging telemedicine applications increasingly are expanding the reach of quality health care services throughout the nation. It is estimated that the information technology sector represents 50 percent of the nation's economic growth. Indeed, the continued development of the Internet's full potential could mean 50-70 percent more new industry jobs with additional economic growth of almost \$900 billion by the year 2005.

This unparalleled success has emerged in the context of policies that favor market forces over government regulation - promoting the growth of innovative, cost-effective, and diverse quality services. It is this same pro-competitive mandate that is at the heart of the 1996 Act. While questions have been raised as to whether certain information service providers now should be subject to telephone regulation, especially in the context of universal service policy, we urge the FCC to be mindful of the success of its long standing policies that have created an atmosphere where advanced services can thrive and the American public can benefit. Simply put, Congress has not required the FCC to prepare and submit a Report on Universal Service that alters this successful and historic policy. Moreover, were the FCC to reverse its prior conclusions and suddenly subject some or all information service providers to telephone regulation, it seriously would chill the growth and development of advanced services to the detriment of our economic and educational well-being.

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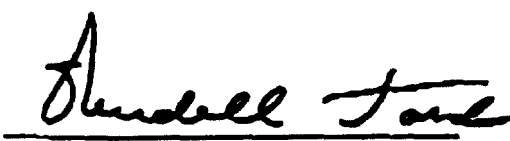
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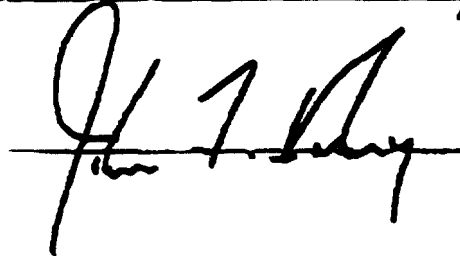
Some have argued that Congress intended that the FCC's implementing regulations be expanded to reclassify certain information service providers, specifically Internet Service Providers (ISPs), as telecommunications carriers. Rather than expand regulation to new service providers, a critical goal of the 1996 Act was to diminish regulatory burdens as competition grew. Significantly, this goal has been the springboard for sound telecommunications policy throughout the globe, and underscores U.S. leadership in this area. The FCC should not act to alter this approach.

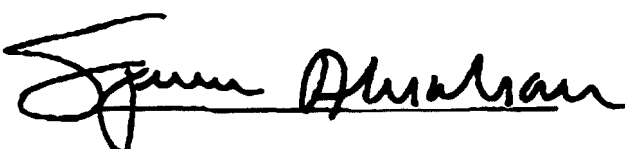
In arguing for the extension of direct universal service obligations to ISPs, the development of "Internet telephony" services is cited as the primary reason why ISPs should contribute directly to universal service. While various types of Internet telephony now are being tested, such services currently are not good substitutes for traditional telephone service. Nevertheless, because the advent of Internet telephony does raise some important policy issues, we urge the FCC to carefully monitor developments in this area. In short, while we believe that it would be appropriate for the FCC to initiate an inquiry to better understand the emerging Internet telephony marketplace and its potential impact on the public switched network, given its early stage of development, such services should not become the excuse for regulating information service providers.

We look forward to the issuance of your final report to Congress on these issues. To assist you in your understanding of the Congressional perspective, please make this correspondence part of the public record in the FCC's proceeding.

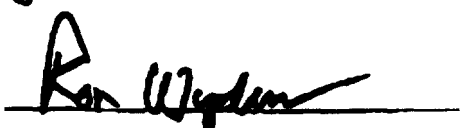
Sincerely,









cc: The Honorable Susan Ness
The Honorable Harold Furchtgott-Roth
The Honorable Michael Powell
The Honorable Gloria Tristani